

B U S I N E S S

S I T U A T I O N

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**T**HE U.S. economy grew strongly again in the first quarter of 1998, according to the “advance” estimates of the national income and product accounts (NIPAs): Real gross domestic product (GDP) increased 4.2 percent after increasing 3.7 percent in the fourth quarter of 1997 (chart 1 and table 1).<sup>1</sup> The price index for gross domestic purchases was unchanged after increasing 1.4 percent; the last quarter in which this index did not increase was the third quarter of 1954.

Among the major components of GDP, producers’ durable equipment (PDE) turned up sharply, personal consumption expenditures (PCE) ac-

celerated strongly, and residential investment stepped up. In contrast, exports turned down, and inventory investment slowed. In addition, imports (which are subtracted in calculating GDP) stepped up substantially.

The largest contribution to the first-quarter increase in real GDP was made by PCE, which increased 5.7 percent; all three major components of PCE rose.<sup>2</sup> PDE, which increased 28.8 percent (mainly reflecting a jump in computer purchases), and residential investment, which increased 17.6 percent, also contributed substan-

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates unless otherwise specified. Quarter-to-quarter dollar changes are differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data. Real estimates are expressed in chained (1992) dollars, and price indexes are chain-type indexes.

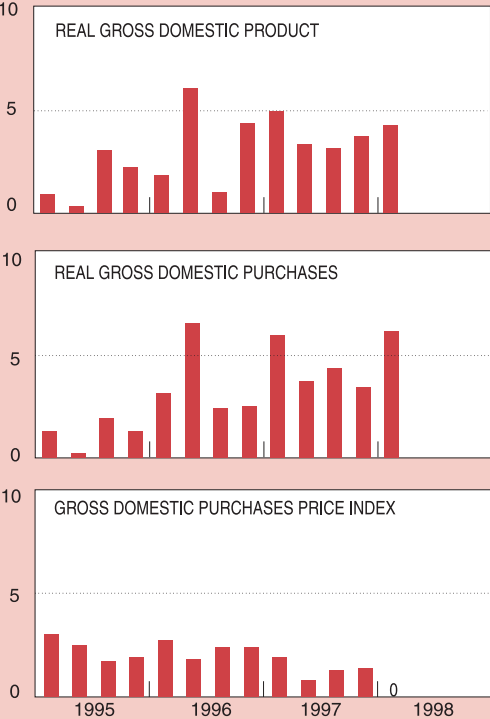
**Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers**  
[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1997			1998
		1997				II			I
		I	II	III	IV	II	III	IV	I
Gross domestic product .....	7,356.0	58.0	54.4	66.0	76.0	3.3	3.1	3.7	4.2
Less: Exports of goods and services .....	984.1	39.8	10.5	19.7	-8.6	18.4	4.4	8.3	-3.4
Plus: Imports of goods and services .....	1,183.8	50.2	38.0	14.7	32.0	20.5	14.6	5.3	11.6
<b>Equals: Gross domestic purchases .....</b>	<b>7,536.7</b>	<b>66.0</b>	<b>77.7</b>	<b>61.5</b>	<b>110.6</b>	<b>3.7</b>	<b>4.3</b>	<b>3.4</b>	<b>6.1</b>
Less: Change in business inventories .....	77.0	13.9	-30.1	26.5	3.0	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers .....</b>	<b>7,453.8</b>	<b>51.6</b>	<b>106.2</b>	<b>36.0</b>	<b>106.9</b>	<b>2.9</b>	<b>6.0</b>	<b>2.0</b>	<b>5.9</b>
Personal consumption expenditures .....	4,994.6	11.3	66.8	29.9	68.5	.9	5.6	2.5	5.7
Durable goods .....	687.7	-8.8	27.1	3.2	28.4	-5.4	18.4	1.9	18.4
Nondurable goods .....	1,479.6	-7.8	15.5	-4.6	18.7	-2.1	4.3	-1.2	5.2
Services .....	2,830.5	25.9	26.3	30.3	24.1	3.9	3.9	4.4	3.5
Private nonresidential fixed investment .....	908.7	28.1	37.5	-1.8	36.0	14.6	19.2	-8.8	17.6
Structures .....	191.0	-2.4	3.2	-1.2	-4.5	-4.8	6.7	-2.3	-8.9
Producers' durable equipment .....	729.5	32.7	36.0	-5	44.7	23.0	24.1	-3	28.8
Private residential investment .....	298.2	4.9	1.9	6.2	11.9	7.4	2.7	9.1	17.6
Government consumption expenditures and gross investment .....	1,268.1	9.6	3.3	1.0	-6.3	3.1	1.1	.3	-2.0
Federal .....	446.4	7.3	-1.3	-2.7	-9.7	6.6	-1.1	-2.3	-8.3
State and local .....	821.9	2.4	4.6	3.6	3.6	1.2	2.3	1.8	1.7
<b>Addendum: Final sales of domestic product .....</b>	<b>7,273.4</b>	<b>43.6</b>	<b>82.6</b>	<b>40.8</b>	<b>72.3</b>	<b>2.5</b>	<b>4.7</b>	<b>2.3</b>	<b>4.1</b>

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals that measure the extent of nonadditivity in each table are in NIPA tables 1.2, 1.4, and 1.6. Percent changes are in table 8.1.

CHART 1

**Selected Measures:**  
**Change From Preceding Quarter**  
Percent



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

tially to the increase in GDP. These positive contributions to GDP growth were partly offset by negative contributions by imports of goods and services, by Federal Government spending (reflecting a drop in national defense spending), exports of goods and services, and by nonresidential structures.

**Motor vehicles.**—Real motor vehicle output decreased 11.7 percent in the first quarter after increasing 21.6 percent in the fourth (table 2). In

contrast, final sales of motor vehicles to domestic purchasers increased 9.8 percent after decreasing 4.8 percent; imports turned up sharply and as inventory investment and exports turned down.

Motor vehicle sales to consumers increased after decreasing. The increase was consistent with favorable developments in a number of factors frequently considered in analyses of overall consumer spending. Growth in real disposable personal income picked up from 4.5 percent to

### First-Quarter 1998 Advance GDP Estimate: Source Data and Assumptions

The "advance" GDP estimate for the first quarter is based on preliminary and incomplete source data; as more and better data become available, the estimate will be revised. The advance estimate is based on the following major source data. (The number of months for which data were available is shown in parentheses.)

**Personal consumption expenditures:** Sales of retail stores (3) and unit auto and truck sales (3);

**Nonresidential fixed investment:** Unit auto and truck sales (3), construction put in place (2), manufacturers' shipments of machinery and equipment other than aircraft (3), aircraft shipments (2), and exports and imports of machinery and equipment (2);

**Residential investment:** Construction put in place (2) and single-family housing starts (3);

**Change in business inventories:** Manufacturing and trade inventories (2) and unit auto and truck inventories (3);

**Net exports of goods and services:** Exports and imports of goods and services (2);

**Government consumption expenditures and gross investment:** Department of Defense outlays (3), other Federal outlays (3), State and local construction put in place (2), and State and local employment (3);

**GDP prices:** Consumer Price Index (3), Producer Price Index (3), U.S. Import and Export Price Indexes (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive listing of assumptions is available on the Department of Commerce's Economic Bulletin Board or from BEA. This listing includes the key data series for which 3 months of data were available and incorporated into the "advance" GDP estimates.

**Table A.—Summary of Major Data Assumptions for Advance Estimates, 1998:1**

[Billions of dollars, seasonally adjusted at annual rates]

	1997			1998		
	October	November	December	January	February	March <sup>1</sup>
Fixed investment:						
Nonresidential structures:						
Buildings, utilities, and farm:						
Value of new nonresidential construction put in place .....	162.1	161.1	162.5	163.2	158.9	159.9
Producers' durable equipment:						
Manufacturers' shipments of complete civilian aircraft .....	28.3	31.0	49.1	55.4	54.9	45.6
Residential structures:						
Value of new residential construction put in place:						
1-unit structures .....	165.4	167.0	169.7	172.0	175.3	178.7
2-or-more-unit structures .....	24.7	23.3	24.0	25.4	25.2	25.3
Change in business inventories, nonfarm:						
Change in inventories for manufacturing and trade (except nonmerchant wholesalers) for industries other than motor vehicles and equipment in trade .....	37.7	51.1	39.6	19.3	68.6	-5.9
Net exports: <sup>2</sup>						
Exports of goods:						
U.S. exports of goods, balance-of-payments basis .....	700.7	690.3	701.0	680.2	667.3	688.5
Excluding nonmonetary gold .....	697.3	687.5	696.9	673.0	663.5	681.8
Imports of goods:						
U.S. imports of goods, balance-of-payments basis .....	898.6	879.2	913.4	900.2	890.1	892.5
Excluding nonmonetary gold .....	896.0	875.8	908.0	892.4	885.8	885.4
Net exports of goods (exports less imports) .....	-197.9	-188.9	-212.4	-220.0	-222.8	-204.0
Excluding nonmonetary gold .....	-198.7	-188.3	-211.1	-219.4	-222.3	-203.6
Government consumption expenditures and gross investment:						
State and local:						
Structures:						
Value of new construction put in place .....	125.4	124.0	124.0	123.8	123.1	125.5

1. Assumed.

2. Nonmonetary gold is included in balance-of-payments-basis exports and imports but is not used directly in the estimation of NIPA exports and imports.

6.8 percent, the highest rate since the second quarter of 1993. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) increased to its highest level in 45 years. The unemployment rate remained unchanged at 4.7 percent. Among factors specific to motor vehicle purchases, interest rates on new-car loans at commercial banks changed little from the fourth quarter.

Motor vehicle sales to both business and government turned up.

Motor vehicle inventory investment decreased after increasing; the decrease reflected a downswing in auto inventories and a smaller increase in truck inventories. The inventory-sales ratio for new domestic autos, which is calculated from units data, remained unchanged at 2.5, slightly above the traditional industry target of 2.4.

## Prices

The price index for gross domestic purchases, which measures the prices paid for goods and services purchased by U.S. residents, was unchanged in the first quarter after increasing 1.4 percent in the fourth (table 3). Energy prices turned down sharply, and food prices increased less in the first quarter than in fourth; excluding these relatively volatile components, the price

index increased 0.9 percent after increasing 1.3 percent (chart 2).

Prices of personal consumption expenditures (PCE) increased 0.3 percent after increasing

**Table 3.—Price Indexes**

[Percent change at annual rates; based on seasonally adjusted index numbers (1992=100)]

	1997			1998
	II	III	IV	I
<b>Gross domestic product</b> .....	<b>1.8</b>	<b>1.4</b>	<b>1.4</b>	<b>0.9</b>
Less: Exports of goods and services .....	-7	-2.0	-2.1	-4.8
Plus: Imports of goods and services .....	-7.6	-3.0	-2.1	-11.1
<b>Equals: Gross domestic purchases</b> .....	<b>.8</b>	<b>1.3</b>	<b>1.4</b>	<b>0</b>
Less: Change in business inventories .....	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>.9</b>	<b>1.3</b>	<b>1.4</b>	<b>0</b>
Personal consumption expenditures .....	1.0	1.5	1.2	.3
Food .....	1.6	3.4	1.7	1.4
Energy .....	-15.7	2.4	2.2	-20.4
Other personal consumption expenditures .....	2.0	1.1	1.0	1.4
Private nonresidential fixed investment .....	-1.5	-8	-1.0	-2.7
Structures .....	3.9	4.2	4.1	2.9
Producers' durable equipment .....	-3.5	-2.6	-2.8	-4.7
Private residential investment .....	3.4	3.2	2.6	.5
Government consumption expenditures and gross investment .....	1.4	1.4	3.3	.8
Federal .....	1.3	.9	3.5	.7
National defense .....	1.1	.6	2.6	1.4
Nondefense .....	1.5	1.5	5.5	-7
State and local .....	1.5	1.7	3.1	.8
<b>Addendum:</b>				
Gross domestic purchases less food and energy .....	1.6	1.1	1.3	.9

NOTE.—Percent changes in major aggregates are in NIPA table 8.1. Most index number levels are in tables 7.1 and 7.2.

**Table 2.—Motor Vehicle Output, Sales, and Inventories**

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1997			1998
	1998	1997				1997			1998
	I	II	III	IV	I	II	III	IV	I
<b>Output</b> .....	<b>258.6</b>	<b>-6.9</b>	<b>13.4</b>	<b>12.7</b>	<b>-8.1</b>	<b>-10.7</b>	<b>24.1</b>	<b>21.6</b>	<b>-11.7</b>
Autos .....	112.7	-2.9	5.3	-5	-8.9	-9.3	19.6	-1.7	-26.1
Trucks .....	145.4	-4.0	8.0	13.1	.7	-12.0	28.4	46.4	1.8
Less: Exports .....	26.6	1.1	-1.5	2.8	-1.1	17.8	-20.8	52.7	-14.9
Autos .....	15.5	1.4	-1.9	.4	0	39.8	-36.9	10.8	-1.4
Trucks .....	11.2	-4	.4	2.4	-1.0	-12.3	16.1	139.6	-30.1
Plus: Imports .....	84.2	-2.2	3.3	-6.0	7.3	-10.5	17.8	-25.9	43.7
Autos .....	70.3	-1.9	1.7	-4.4	7.3	-11.2	11.2	-23.9	55.5
Trucks .....	13.9	-3	1.6	-1.5	-1	-7.0	53.9	-34.2	-2.0
<b>Equals: Gross domestic purchases</b> .....	<b>316.2</b>	<b>-10.0</b>	<b>18.0</b>	<b>4.1</b>	<b>.2</b>	<b>-12.6</b>	<b>26.9</b>	<b>5.4</b>	<b>.3</b>
Autos .....	167.5	-6.1	8.8	-5.3	-1.4	-13.5	23.1	-11.7	-3.2
Trucks .....	148.4	-3.9	9.1	9.4	1.6	-11.5	31.8	30.3	4.4
Less: Change in business inventories .....	.8	.9	-2.4	7.9	-7.3	.....	.....	.....	.....
Autos .....	-2.3	2.7	-1.5	3.1	-4.8	.....	.....	.....	.....
Trucks .....	3.3	-1.9	-8	4.8	-2.4	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>314.9</b>	<b>-10.9</b>	<b>20.2</b>	<b>-3.8</b>	<b>7.3</b>	<b>-13.7</b>	<b>30.9</b>	<b>-4.8</b>	<b>9.8</b>
Autos .....	169.5	-8.7	10.2	-8.4	3.3	-18.6	27.4	-18.0	8.3
Trucks .....	145.1	-2.2	10.0	4.6	3.9	-6.7	35.6	14.2	11.5
<b>Addenda:</b>									
Personal consumption expenditures .....	185.4	-9.0	13.7	-2.0	4.6	-18.8	36.4	-4.3	10.6
Producers' durable equipment .....	122.0	-2.1	5.4	0	2.0	-7.0	20.5	-2	6.9
Gross government investment .....	8.9	.4	1.1	-1.7	.6	18.5	60.0	-53.0	32.0

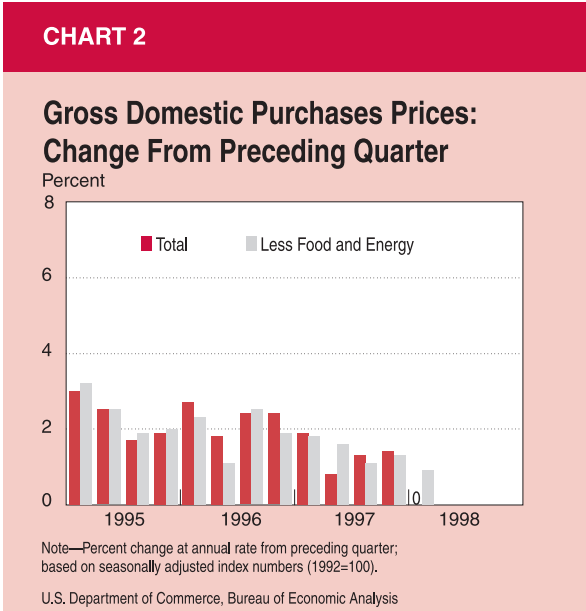
NOTE.—See note to table 1 for an explanation of chained (1992) dollars. Truck output includes new trucks only; auto output includes new cars and used cars. Chained (1992) dollar levels for motor vehicle output, auto and truck output, and residuals that measure the extent of nonadditivity in each table are in NIPA tables 1.4, 8.5, and 8.7.

1.2 percent. Energy prices decreased 20.4 percent after increasing 2.2 percent; gasoline and oil, natural gas, and fuel oil and coal turned down, and electricity decreased more than in the fourth quarter. Food prices increased 1.4 percent after increasing 1.7 percent; the slowdown largely reflected slowdowns in the prices of fresh milk and cream and of fresh vegetables and a downturn in the price of eggs. "Other" PCE prices increased 1.4 percent after increasing 1.0 percent; an acceleration in the price of medical care more than offset a slowdown in the price of transportation.

Prices of nonresidential fixed investment decreased 2.7 percent after decreasing 1.0 percent. Prices of structures increased 2.9 percent after increasing 4.1 percent. Prices of producers' durable equipment decreased 4.7 percent after decreasing 2.8 percent; prices of information processing and related equipment, particularly computers and peripheral equipment, decreased much more in the first quarter than in the fourth. Prices of residential investment increased 0.5 percent after increasing 2.6 percent.

Prices of government consumption expenditures and gross investment increased 0.8 percent after increasing 3.3 percent. Prices paid by the Federal Government increased 0.7 percent after increasing 3.5 percent; the first-quarter increase reflects a 2.8-percent pay raise for civilian and military personnel.<sup>3</sup> Prices paid by State and local governments increased 0.8 percent after increasing 3.1 percent.

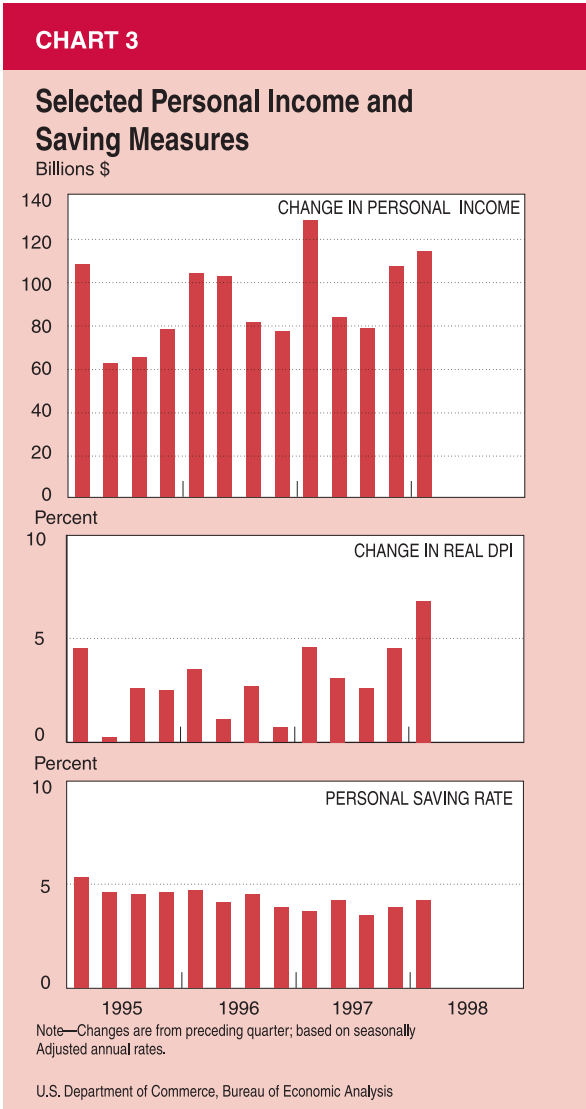
3. In the NIPA's, an increase in the rate of Federal employee compensation is treated as an increase in the price of employee services purchased by the Federal Government.



The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 0.9 percent after increasing 1.4 percent. The GDP price index, unlike the price index for gross domestic purchases, includes the prices of exports and excludes the prices of imports. Export prices decreased 4.8 percent after decreasing 2.1 percent; computer prices decreased more than in the fourth quarter. Import prices decreased 11.1 percent after decreasing 2.1 percent; prices of petroleum products dropped sharply after an increase, prices of nonpetroleum products decreased more than in the fourth quarter, and services prices turned down.

Personal income

Real disposable personal income (DPI) increased 6.8 percent in the first quarter after increasing 4.5 percent in the fourth, reflecting a modest step-up in personal income, a slowdown in personal tax




and nontax payments, and the slowdown in PCE prices (chart 3). The personal saving rate (saving as a percentage of current-dollar DPI) increased to 4.2 percent from 3.9 percent, as DPI increased more than personal outlays.

Personal income increased \$113.4 billion after increasing \$106.6 billion (table 4). The slight acceleration was more than accounted for by transfer payments, which increased \$19.2 billion after increasing \$9.1 billion. The step-up in transfer payments largely reflected \$9.5 billion in cost-of-living adjustments to benefits under social security and other Federal retirement and income support programs.

Wage and salary disbursements increased \$84.7 billion, about the same as in the fourth quarter. An acceleration in the service industries was offset by a deceleration in the goods-producing industries. In the first quarter, private industry average weekly hours accelerated, and employment and average hourly wages decelerated. Government wages and salaries increased more in the first quarter than in fourth, reflecting the pay raise for Federal civilian and military employees.

Other labor income, proprietors' income, and personal dividend income each increased about as much in the first quarter as in the fourth. Rental income to persons decreased a little more than in the fourth quarter, and personal interest income increased a little less than in fourth quarter. Personal contributions for social insurance, which is subtracted in the calculation of personal income, increased \$7.8 billion after increasing \$5.6 billion; the step-up reflected an increase in the social security taxable earnings base for employees and for the self-employed.

Personal tax and nontax payments increased \$10.3 billion after increasing \$24.1 billion. The de-

celeration reflected indexation provisions of the income tax law and provisions of the Taxpayer Relief Act of 1997—primarily those provisions that modified the estimated-tax requirements for high-income taxpayers and that established the child tax credit. 

**Table 4.—Personal Income and Its Disposition**

[Billions of dollars; seasonally adjusted at annual rates]

	Level	Change from preceding quarter			
	1998	1997			1998
	I	II	III	IV	I
Wage and salary disbursements .....	4,065.1	50.1	54.5	84.3	84.7
Private industries .....	3,383.4	45.9	48.8	78.3	76.7
Goods-producing industries .....	997.8	9.9	8.6	22.7	13.7
Manufacturing .....	730.4	6.2	5.7	17.4	7.0
Distributive industries .....	919.0	10.2	13.8	19.8	18.4
Service industries .....	1,466.6	25.7	26.5	35.7	44.6
Government .....	681.7	4.2	5.7	6.0	8.0
Other labor income .....	425.1	2.8	2.6	3.7	3.7
Proprietors' income with IVA and CCAAdj .....	558.0	9.0	3.6	5.3	5.5
Farm .....	33.3	3.4	-2.7	-2.7	-4.9
Nonfarm .....	524.8	5.6	6.3	8.0	10.5
Rental income of persons with CCAAdj .....	142.8	-3	-7	-2.3	-2.9
Personal dividend income .....	336.8	5.8	6.2	6.2	6.1
Personal interest income .....	783.3	8.9	6.5	5.8	4.9
Transfer payments to persons .....	1,154.0	9.8	8.7	9.1	19.2
Less: Personal contributions for social insurance .....	338.2	3.1	3.5	5.6	7.8
<b>Personal income .....</b>	<b>7,126.9</b>	<b>82.9</b>	<b>77.8</b>	<b>106.6</b>	<b>113.4</b>
Less: Personal tax and nontax payments .....	1,032.4	23.5	18.8	24.1	10.3
<b>Equals: Disposable personal income .....</b>	<b>6,094.5</b>	<b>59.4</b>	<b>59.0</b>	<b>82.5</b>	<b>103.1</b>
Less: Personal outlays .....	5,837.4	28.2	98.0	54.8	81.8
<b>Equals: Personal saving .....</b>	<b>257.1</b>	<b>31.1</b>	<b>-38.8</b>	<b>27.6</b>	<b>21.3</b>
<b>Addenda: Special factors in personal income:</b>					
In wages and salaries:					
Federal Government and Postal Service pay adjustments .....	3.4	-2	-1	0	3.4
In transfer payments to persons:					
Social security retroactive payments .....	0	0	0	1.1	-1.1
Cost-of-living adjustments in Federal transfer programs .....	9.5	0	0	0	9.5
Earned Income Tax Credit payments .....	21.6	0	0	0	.4
In personal tax and nontax payments:					
Recent tax law changes .....	-22.2	0	0	0	-13.0

NOTE.—Most dollar levels are in NIPA table 2.1.

IVA = Inventory valuation adjustment

CCAAdj = Capital consumption adjustment